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TO SECSTATE WASHDC 6297
INFO ALL EC CAPITALS
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TAGS: EEC, PEPR, ECIN, SP, GR, PO
SUBJ: EC COMMISSION SUBMITS ITS VIEWS ON THE PROBLEMS
OF ENLARGEMENT

1. INTRODUCTION AND SUMMARY: APRIL 19, THE EC COMMISSION,
AFTER SEVERAL MONTHS OF PREPARATION, ADOPTED AND SUBMITTED
TO EC COUNCIL, EUROPEAN PARLIAMENT AND EC MEMBER STATES,
A BROAD STUDY CONTAINING COMMISSION'S "REFLECTIONS" ON
THE PROBLEMS INHERENT IN THE PENDING ACCESSION OF GREECE,
PORTUGAL AND SPAIN TO THE COMMUNITY. THE "REFLECTIONS"
(POPULARLY KNOWN HERE AS THE "FRESCO" ON ENLARGEMENT),
WHICH WERE PRESENTED BY EC COMMISSION VICE PRESIDENT
NATALI AND ARE INTENDED TO SERVE AS A GUIDELINE FOR MEMBER
STATES DURING THEIR NEGOTIATIONS WITH THE THREE APPLICANTS,
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DO NOT CONTEST THE DESIRABILITY OF ENLARGEMENT BUT CON-
CLUDE THAT THE ENTRY OF THE THREE NEW COUNTRIES WILL
ENTAIL DIFFICULTIES IN ALMOST ALL SECTORS OF THE COM-
MUNITY--AGRICULTURAL, INDUSTRIAL, SOCIAL, REGIONAL AND
INSTITUTIONAL. IN ANALYZING THE DIFFICULTIES, THE COM-
MISSION ALSO LAYS DOWN IN GENERAL TERMS THE CONDITIONS
IT CONSIDERS NECESSARY FOR ENSURING THAT ENLARGEMENT WILL

NOT RESULT IN THE COMMUNITY'S DILUTION, NOR DETRACT FROM THE OBJECTIVE OF ACHIEVING EARLY ECONOMIC AND MONETARY UNION (EMU). ACCORDING TO THE FRESCO, THESE CONDITIONS INVOLVE THE MAINTENANCE OF SUSTAINED ECONOMIC GROWTH, AVOIDANCE OF NEW AGRICULTURAL SURPLUSES IN MEDITERRANEAN PRODUCTS, ADAPTATION OF INDUSTRIAL PRODUCTION IN THE APPLICANT COUNTRIES, AND ENHANCED REGIONAL POLICY AND OTHER EXISTING COMMUNITY MECHANISMS TO OVERCOME DISPARITIES THROUGH THE TRANSFER OF SUBSTANTIAL FINANCIAL RESOURCES. THE FRESCO ACKNOWLEDGES THAT A 5-10 YEAR TRANSITION PERIOD WILL BE NEEDED FOR THE COMPLETE ABSORPTION OF THE APPLICANTS INTO THE COMMUNITY AND SUGGESTS THAT FREE MOVEMENT OF LABOR FROM THE NEW MEMBER STATES WITHIN THE ENLARGED EC SHOULD OCCUR IN STAGES. IN PRESENTING FRESCO TO MISSION OFFICER, COMMISSION OFFICIALS EMPHASIZED COMMISSION'S CONCLUSIONS THAT: (A) ACHIEVEMENT OF EMU CAN HELP EC TO BEAR STRAIN OF ENLARGEMENT; (B) SECTORAL ADJUSTMENTS IN THE APPLICANT COUNTRIES SHOULD BEGIN DURING ACCESSION NEGOTIATIONS; AND (C) PORTUGAL WILL NEED SUBSTANTIAL AMOUNTS OF ECONOMIC ASSISTANCE FROM EC AND ELSEWHERE FOR A PROLONGED PERIOD. END SUMMARY.

2. THERE FOLLOWS A BRIEF RUNDOWN OF THE PRINCIPAL POINTS CONTAINED IN THE COMMISSION'S FRESCO ON THE PROBLEMS OF ENLARGEMENT.

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3. ECONOMIC - COMMISSION CONSIDERS THE CREATION OF ECONOMIC AND MONETARY UNION (EMU) AN IMPORTANT AND NECESSARY STEP TO ACHIEVE COMMUNITY COHESIVENESS AND SUSTAINED ECONOMIC GROWTH. TO ACHIEVE THESE OBJECTIVES AND PERMIT READY ABSORPTION OF THE ECONOMIES OF THE APPLICANT STATES, CERTAIN SECTORAL ACTIONS MUST BE DEFINED AND UNDERTAKEN BY THE APPLICANT COUNTRIES, POSSIBLY WITH COMMUNITY FINANCIAL ASSISTANCE, PRIOR TO ACCESSION TO FACILITATE THEIR INTEGRATION (PARAS 4 AND 5 BELOW) INTO THE COMMUNITY. AFTER ACCESSION THE THREE NEW MEMBERS WILL BENEFIT FROM THE COMMUNITY'S VARIOUS BUDGETARY INSTRUMENTS; IN ADDITION, HOWEVER, PORTUGAL'S LOW LEVEL OF ECONOMIC DEVELOPMENT WILL REQUIRE IT TO BENEFIT FROM "EXCEPTIONAL" FINANCIAL ASSISTANCE BOTH PRIOR TO AND AFTER ACCESSION. THE COMMISSION BELIEVES THAT COMMUNITY BUDGETARY INSTRUMENTS WILL HAVE TO BE ADAPTED AND EXPANDED TO TAKE INTO ACCOUNT NOT ONLY THE RESDURCE TRANSFERS TO THE NEW MEMBER STATES BUT ALSO TO INTENSIFY TRANSFERS TO THE WEAKEST REGIONS OF THE PRESENT COMMUNITY UNDER THE EC'S REGIONAL POLICY.

4. AGRICULTURE - THE COMMISSION OBSERVES THAT THE ADDI-

TION OF GREECE, SPAIN AND PORTUGAL WILL RAISE THE NUMBER OF COMMUNITY FARMERS BY 55 PERCENT, AND AGRICULTURAL AREA AND PRODUCTION VALUE BY 40 PERCENT AND 24 PERCENT RESPECTIVELY. THIS WILL MEAN AN INCREASE IN THE AGRICULTURAL DISEQUILIBRIUM, PARTICULARLY IN THE MEDITERRANEAN REGION. THE PAPER STATES THAT THERE WILL BE A REAL DANGER OF ADDITIONAL SURPLUSES WHERE THEY ALREADY EXIST IN THE PRESENT COMMUNITY IN WINE, OLIVE OIL, CERTAIN FRUITS AND VEGETABLES, ALTHOUGH THE NEW MEMBER STATES WILL BE NET IMPORTERS OF DAIRY PRODUCTS AND MEAT. AS A RESULT, THE APPLICATION OF THE COMMUNITY'S AGRICULTURAL REGULATIONS MUST BE DIRECTED AGAINST ENCOURAGING THE NEW MEMBER STATES FROM DEVELOPING UNNEEDED PRODUCTS. THE COMMISSION THEREFORE CONCLUDES THAT THE SOLUTION LIES IN THE DEVELOPMENT LIMITED OFFICIAL USE

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OF PRODUCTS IN WHICH THE ENLARGED COMMUNITY IS DEFICIENT THROUGH THE INITIATION OF FUNDAMENTAL STRUCTURAL MODIFICATIONS IN THE APPLICANT COUNTRIES, TAKING INTO ACCOUNT THE OVERALL MEDITERRANEAN AGRICULTURAL POLICIES OF THE COMMUNITY.

5. INDUSTRY - THE PAPER POINTS OUT THE PROBLEMS THE COMMUNITY NOW FACES IN CERTAIN SENSITIVE SECTORS (E.G., TEXTILES AND STEEL) AND NOTES THAT THESE PROBLEMS WILL INCREASE WITH ENLARGEMENT UNLESS THE EC CAN PERSUADE THE APPLICANTS THAT EVEN PRIOR TO ACCESSION THEY SHOULD OBSERVE "COMMON DISCIPLINES" IN THE INDUSTRIAL SECTOR. COMMISSION CONTINUES THAT "IF THESE COMMON DISCIPLINES WORKED SATISFACTORILY, THE APPLICANT COUNTRIES COULD BE EXEMPTED FROM THE PROTECTIVE MEASURES THE COMMUNITY HAS LIMITED OFFICIAL USE

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HAD TO ADOPT VIS-A-VIS NON-MEMBER COUNTRIES, AT ANY RATE IN THE CASE OF EXPORTS WHICH ARE IMPORTANT TO THEIR BALANCE OF TRADE."

6. ENERGY - THE ACCESSION OF GREECE, PORTUGAL AND SPAIN WILL AGGRAVATE THE COMMUNITY'S DEPENDENCE ON OUTSIDE SOURCES OF ENERGY, NOTABLY OIL. THE COMMUNITY MUST THEREFORE MAKE ADDED EFFORTS TO REDUCE ITS RELIANCE ON THIRD COUNTRY ENERGY BY ESTABLISHING A GENUINE COMMON ENERGY POLICY.

7. SOCIAL ASPECTS (LABOR AND EMPLOYMENT) - AN ENLARGED COMMUNITY OF TWELVE WILL AGGRAVATE THE UNEMPLOYMENT SITUATION WHICH TODAY IS AT 7.5 MILLION JOBLESS (I.E., EC NINE PLUS GREECE, SPAIN AND PORTUGAL). A BOLD EMPLOYMENT POLICY IS NECESSARY TO MEET THE PROBLEM. FREE MOVEMENT IN THE COMMUNITY OF WORKERS FROM THE NEW MEMBER STATES MUST BE ENSURED, BUT THIS SHOULD BE DONE ON A GRADUAL BASIS IN ORDER TO PREVENT TENSION. FURTHERMORE, COMMUNITY REGIONAL POLICY SHOULD BE EXPANDED IN ORDER TO PROVIDE JOBS ON THE SPOT IN GREECE, PORTUGAL, AND SPAIN.

8. THE ENLARGED COMMUNITY'S PLACE IN THE WORLD - THE EC'S RANGE OF INTERNATIONAL EXCHANGES WILL INCREASE WITH THE ENTRY OF GREECE, PORTUGAL AND SPAIN. COMMUNITY EXPANSION WILL HAVE A PARTICULAR IMPACT ON THE COMMUNITY'S RELATIONS WITH MEDITERRANEAN AND OTHER THIRD WORLD COUNTRIES BY LIMITING SOMEWHAT THE COMMUNITY'S ABSORPTIVE CAPACITY FOR AGRICULTURAL AND INDUSTRIAL CONSUMER GOODS FROM THE LDC'S. PARALLEL TO THE ENLARGEMENT PROCESS, A NEW BALANCE WILL HAVE TO BE SOUGHT IN THE COMMUNITY'S RELATIONS WITH THOSE COUNTRIES WITH WHICH IT NOW HAS SPECIAL AGREEMENTS (ACP, MASHREK, MAGHREB, AND OTHERS) IN ORDER TO PERMIT ORDERLY TRADE AND THE ADEQUATE DEVELOPMENT OF THOSE COUNTRIES'

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ECONOMIES. REGARDING THE COMMUNITY'S RELATIONS WITH TURKEY, THE COMMISSION'S PAPER SAYS THAT ENLARGEMENT WOULD NOT CONSTITUTE AN OBSTACLE TO THE EC/TURKEY ASSOCIATION AGREEMENT AND THAT EFFORTS SHOULD BE MADE TO FIND SOLUTIONS TO PRESENT PROBLEMS AIMED AT STRENGTHENING EC/TURKEY TIES.

9. TRANSITION - A TRANSITION PERIOD WILL BE NECESSARY IN ORDER TO PERMIT THE APPLICANT COUNTRIES TO ASSUME GRADUALLY THE FULL EXTENT OF THEIR OBLIGATIONS. THIS PERIOD, FOLLOWING ACTUAL ACCESSION, SHOULD BE FLEXIBLE BUT SHOULD BE NO SHORTER THAN FIVE YEARS AND NO LONGER THAN TEN. THE TRANSITION PERIOD SHOULD ALSO CONSIST OF TWO STAGES DURING WHICH WELL-DEFINED, PHASED PROGRESS SHOULD BE MADE IN PARTICULAR SECTORS.

10. INSTITUTIONAL ASPECTS - THE INSTITUTIONS AND ORGANS OF THE COMMUNITY MUST BE STRENGTHENED AND THE DECISION-MAKING PROCESS IMPROVED. THE PAPER NOTES THAT AN ENLARGED COMMUNITY OF TWELVE MAKES RECOURSE TO MAJORITY VOTING THE MOST DESIRABLE MEANS FOR DECISION-MAKING IN THE COUNCIL. MOREOVER, THE COMMISSION'S POWERS IN DAY-TO-DAY MANAGEMENT AND EXECUTION OF COMMUNITY POLICIES SHOULD BE EXPANDED AND THE LEGAL INSTRUMENTS OF THE TREATIES SHOULD BE MORE JUDICIOUSLY USED. (COMMENT: WHILE MISSION HAS NOT YET SEEN ANNEXES TO THE FRESCO, WE UNDERSTAND THAT THE INSTITUTIONAL ANNEX RECOMMENDS THAT IN A COMMUNITY OF TWELVE EACH MEMBER STATE BE PERMITTED ONLY ONE COMMISSIONER. END COMMENT.)

11. COREPER IS EXPECTED TO DISCUSS THE FRESCO APRIL 27 PREPARATORY TO ITS EXAMINATION BY EC FOREIGN MINISTERS COUNCIL MAY 2 AND JUNE 6. PERMDEL OFFICIALS HAVE SPECULATED TO MISSION PRELIMINARILY THAT GIVEN STILL GENERAL NATURE OF COMMISSION'S IDEAS ON ENLARGEMENT, COUNCIL IS UNLIKELY TO DO ANYTHING MORE THAN NOTE ITS TENTATIVE APPROVAL AND ASK COMMISSION TO DRAW UP SPECIFIC PROPOSALS OVER THE MONTHS AHEAD IN EACH OF THE PROBLEM AREAS OUTLINED IN THE FRESCO.

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12. IN BRIEFING MISSION OFFICER ON FRESCO, COMMISSION
OFFICIALS HAVE EMPHASIZED:

(A) COMMISSION'S PROPOSALS ON ENLARGEMENT ARE CONSISTENT
WITH EUROPEAN COUNCIL'S DISCUSSION IN COPENHAGEN EARLIER
THIS MONTH OF NEED FOR SUSTAINED ECONOMIC GROWTH AND
GREATER FINANCIAL AND MONETARY COORDINATION AMONG EC
MEMBER STATES. WHILE COMMISSION HAS NOT SET ATTAINMENT
OF EMU AS A PRECONDITION FOR EC ENLARGEMENT, COMMISSION
BELIEVES COMMUNITY'S ABILITY TO MANAGE ENLARGEMENT SUC-
CESSFULLY DEPENDS TO CONSIDERABLE EXTENT ON ACHIEVING EMU;
(B) PERIOD 1979-80 WILL BE CRITICAL TIME OF DECISION FOR
THE COMMUNITY ON ALL ASPECTS OF ENLARGEMENT. GREEK
NEGOTIATIONS WILL PROBABLY BE CONCLUDED SOMETIME IN 1979
OR EARLY 1980, PORTUGUESE NEGOTIATIONS WILL BE WELL IN
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TRAIN, AND SPANISH NEGOTIATIONS WILL BE GETTING SERIOUSLY
UNDERWAY. UP UNTIL NOW THE COMMISSION AND OTHER COMMUNITY
INSTITUTIONS HAVE BEEN "REFLECTING." DURING THE PERIOD
JUST AHEAD THEY WILL HAVE TO TAKE DECISIONS WHICH MAY
WELL SET THE TONE NOT ONLY FOR ENLARGEMENT BUT FOR A BROAD

RANGE OF EC ACTIVITIES DURING THE DECADE OF THE 1980'S.
IN PARTICULAR, THE EC MUST TAKE SOME FUNDAMENTAL DECISIONS ABOUT ITS AID AND TRADE POLICIES TOWARD MEDITERRANEAN COUNTRIES IN LIGHT OF EXPECTED ENLARGEMENT;
(C) IMPORTANCE OF COMMISSION'S RECOMMENDATIONS THAT THREE APPLICANT COUNTRIES BE ENCOURAGED (AND INDEED INDUCED) TO MAKE SECTORAL ADJUSTMENTS NOW, I.E., PRIOR TO AND DURING THE ACCESSION PROCESS.

13. ON LATTER POINT, COMMISSION OFFICIALS AVERRED THAT PORTUGUESE COOPERATION MINISTER CONSTANZIO HAS AGREED THAT PORTUGAL'S UPCOMING FIVE-YEAR PLAN SHOULD BE DRAFTED IN CLOSE CONSULTATION WITH THE EC COMMISSION.
OFFICIALS SAID THEY EXPECT PORTUGUESE TO ASSENT TO RESTRUCTURING IN ALL RELEVANT FIELDS. COMMISSION OFFICIALS IMPLIED THAT SHOULD PORTUGUESE CHANGE THEIR MINDS, IT MIGHT BE DIFFICULT TO INSURE THE SIZABLE TRANSFER OF COMMUNITY RESOURCES TO PORTUGAL WHICH THE COMMISSION CONSIDERS NECESSARY DURING THE YEARS AHEAD. COMMISSION OFFICIALS CONCLUDED THAT PORTUGUESE ECONOMY IS IN BAD SHAPE AND THAT PORTUGAL WILL NEED ALL THE ASSISTANCE IT CAN GET FROM EC, US, AND OTHERS FOR SOME YEARS TO COME.

14. MISSION IS POUCHING TO EUR/RPE THE MAIN DOCUMENT IN THE COMMISSION'S FRESCO, WHICH RUNS TO 20 PAGES. WE UNDERSTAND THAT THE DETAILED ANNEXES RUN TO WELL OVER 100 PAGES. HINTON

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